DOCUMENT RESUME

ED 377 668 EC 303 597

TITLE	ED Can Allocate Special Education Funds More Equitably. Final Audit Report, Audit Control No. A0928255.
INSTITUTION	Office of Inspector General (ED), San Francisco, CA. Region IX.
PUB DATE	Sep 94
NOTE	27p.
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Accountability; Categorical Aid; Data Collection; Demography; *Disabilities; Educational Diagnosis; Educational Equity (Finance); Elementary Secondary Education; *Federal Aid; Financial Support; *Government Role; *Incidence; Information Sources; Labeling (of Persons); Needs Assessment; Reliability; *Resource Allocation; *Special Education; Validity
IDENTIFIERS	Child Count; *Department of Education

ABSTRACT

This report of the San Francisco (California) Regional Office of the Inspector General concludes that the U.S. Department of Education should improve its present method of allocating special education funds among the states. It finds that the basis of these allocations, reported numbers of students receiving special education in each state, is unreliable. It recommends that allocations be made, instead, on the basis of a state's total population, age 3 through 21, weighted by poverty measures. The report also recommends re-evaluation of the need to classify and report students by disability categories. It finds six indications of the present system's unreliability: (1) states report widely divergent proportions of children in each disability category; (2) local school districts report widely divergent proportions of children in each disability category; (3) states' enrollments of students in special education are inconsistent with other statistics on the number of persons with disabilities; (4) reports and studies have cited problems with the child count process; (5) state and local special education officials have cited problems with the present system; and (6) most of the independent groups perceive deficiencies in the present special education program process. Attached material includes a table of percentages of students with disabilities by state, a comparison of work-related disabilities versus students counted as disabled, and a listing of groups contacted. (DB)

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ED CAN ALLOCATE SPECIAL EDUCATION FUNDS MORE EQUITABLY

AUDIT CONTROL NO. A0928255
SEPTEMBER 1994

Regional Inspector General
for Audit, Region IX
San Francisco, California

EC 303597

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NOTICE

Statements that financial and/or managerial practices need improvement or recommendations that cost questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by appropriate Education Department officials.

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MEMORANDUM

DATE: September 14, 1994

TO: Judith Heumann
Assistant Secretary, Office of Special
Education and Rehabilitative Services

FROM: Regional Inspector General for Audit
Region IX

SUBJECT: FINAL AUDIT REPORT
ED Can Allocate Special Education Funds More Equitably.
Audit Control No. A0928255

Attached is our subject final audit report that covers our review: **ED Can Allocate Special Education Funds More Equitably.** We received your comments, which essentially were in agreement with the issues included in our draft report. You advised that the issues raised would be considered as the Department develops proposals to the Congress for the upcoming reauthorization of the Individuals with Disabilities Education Act.

You have been designated the primary action official for this report. Please provide the Accounting and Financial Management Service/Audit Follow-up Branch and the Office of Inspector General/General Operations Staff with semiannual status reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us in the review. Should you have any questions concerning this report, please call me.

SEFTON BOYARS

Enclosure

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ED Can Allocate Special Education Funds More Equitably

Executive Summary

ED can improve its present method of allocating Special Education[1] funds among the states. Currently, ED bases its allocation of those funds on the count of students receiving Special Education in each state. However, our review disclosed a number of indications that this count is unreliable.

- States report widely divergent proportions of children in each disability category.
- Local school districts report widely divergent proportions of children in each disability category.
- States' enrollment of students in Special Education are inconsistent with other statistics on the number of persons with disabilities.
- Reports and studies have cited problems with the child count process.
- State and local Special Education officials cited problems with the present system.
- Representatives of most of the independent groups perceive deficiencies in the Special Education program process.

In our opinion, the use of unreliable statistics can mislead Congress and ED into making inappropriate policy decisions. To alleviate this problem, ED should consider allocating Special Education funds among the states on the basis of objective data.

We believe that the most appropriate allocation base would be total population age 3 through 21, weighted by poverty measures because of the known correlation between disabilities and poverty. The use of objective data to distribute funds would provide each state an

[1] For the purposes of this document, the term Special Education refers to the Individuals with Disabilities Act, Part B, Section 611.

equitable share of the Special Education funds and eliminate any incentive for states to manipulate the count or to retain students in the program longer than necessary.

State and local special education officials and representatives of independent groups cited problems with the categorization process. Under our recommendation, counts will no longer be required for funding, so this provides ED with an opportunity to reevaluate the reporting of students by disability category.

The Office of Special Education and Rehabilitative Services responded that the report's analysis and recommendations warranted further study. It stated that it would consider issues raised in the report as part of its deliberations during the reauthorization process.

States Report Widely Divergent Proportions of Children in Each Category of Disability

In identifying children eligible for Special Education, states classify and report them as being in one of thirteen disability categories. However, the states vary significantly in the proportions of children in the various categories.

- According to ED data[2], about half of the children in Special Education programs nationwide are categorized as having a specific learning disability. However, the proportion of children with learning disabilities varies significantly in the various states. For example, Rhode Island categorizes about 66 percent of the children in its Special Education program as having a specific learning disability, whereas Georgia classifies only about 32 percent in that category.

  We found wide differentiations even in adjacent states. For example, New Hampshire classified 63 percent of its Special Education children as having a specific learning disability, while bordering Massachusetts reported only 37 percent in that category.

---

[2] ED's 1992 Annual Report to Congress on the Implementation of IDEA.

- Thirteen states classified less than five percent of their Special Education students as being seriously emotionally disturbed, while other states classified 15 percent or more of their Special Education students as being seriously emotionally disturbed.

  Again, variations occurred in adjacent states. Missouri classified 8.9 percent of its Special Education students as being seriously emotionally disturbed, while neighboring Arkansas reported only 0.6 percent in that category.

- The State of Wisconsin classified 24.3 percent of all its disabled students as having multiple disabilities, whereas eight states reported zero percent of their students in that category.

Extreme variations in the proportions of Special Education children exist in each of the designated categories. After reviewing those variations, we concluded that the count of Special Education students in the states are unreliable.

School Districts in California Report Widely Divergent Proportions of Children in Each Category

Local educational agencies (LEAs) are responsible for counting and categorizing the children in their Special Education programs. We determined whether there were similar variations between the LEAs in the percentage of students in the different disability categories. To make that determination, we analyzed the counts of 13 large school districts in California, the state receiving the most Special Education funds.

As with the states, there were wide variations among the districts in the proportion of students in each of the disability categories.

- For example, Long Beach Unified School District classified 9.6 percent of its Special Education students as mentally retarded, while Elk Grove Unified School District classified only 1.8 percent of its students as mentally retarded.

- San Bernardino Unified School District classified 5.6 percent of its Special Education students as having multiple disabilities. Santa Ana Unified School District classified only 0.2 percent of its Special Education students as having multiple disabilities.

We concluded with the California LEAs, as we did with the states, that the statistics regarding the proportions of Special Education students in each of the categories are unreliable.

Discussions with special education officials from other states indicated that similar variations existed with their LEAs.

The Count of Special Education Students Conflicts with Other Data on Persons with Disabilities

The Special Education counts in the states differ considerably from estimates of the numbers of disabled persons contained in ED's March 1993, "Disability Statistics Report: State Estimates of Disability in America."[3] That report shows the proportion of persons aged 16 to 64 with work related disabilities in each of the 50 states and the District of Columbia.

The Definitions for Work Related Disabilities and Special Education are Similar

The March 1993 report cited above, defines a person with a disability as being limited in actions or activities because of a mental, physical, or emotional health condition.

Special Education children are defined as having one of the thirteen categorical disabilities. The categories include mental, physical, or emotional conditions that require the student to need special education services.

[3] The report was sponsored by the National Institute on Disability and Rehabilitation Research. It was produced by the University of California, San Francisco and authored by Mitchell P. LaPlante, Ph.D.

Poverty and Low Education are Typical of States that Rank High on Disability

In our discussions with the Director of ED's Office of Special Education Programs, he stated that there are many factors related to disabilities, but there is strong correlation between poverty and the level of disabilities within a community.

According to ED's March 1993 report referred to above,

> "Low educational attainment and low economic resources are typical of states that rank high on disability . . . .
>
> "Based on 1980 census data, one study (Haber, 1987) found that aggregate socioeconomic conditions of poverty and low education accounted for most of the observed variation in nonsevere and severe work disability across the states."

ED's 1992 Annual Report to Congress also states that there is a strong association between low-income status and the likelihood of having a disability.

> "Youth with disabilities are much more likely to live in single parent families and in families characterized by lower socioeconomic status than the general population of youth."

Both Dr. LaPlante, the author of the Disability Statistics Report discussed earlier, and ED personnel pointed out to us that disabilities are clearly correlated with poverty. That correlation makes sense, as poverty can result in inadequate prenatal care, poor nutrition and limited health care, all factors that can lead to disabilities.

No Correlation Exists Between State Rankings

In light of the above data, it would be reasonable to expect a correlation between the proportion of students in Special Education and the proportion of the population aged 16 to 64 with work related disabilities. We found, however, no such relationship.

- The state with the highest proportion of students in Special Education, Massachusetts, ranks 42nd (out of 51) in persons with work-related disabilities.

- The state with the second highest proportion of students in Special Education, New Jersey, ranks 51st in persons with work-related disabilities.

- Conversely, Louisiana, was 49th in the proportion of students in Special Education, but ranked 5th in persons with work-related disabilities.

These and many other conflicts lead us to conclude that the proportion of students receiving Special Education services in a given state are unrelated to the proportions of persons with disabilities in that same state.

Exhibit A to this report shows the proportion of students in each state receiving Special Education services. Exhibit B ranks the states in order of the proportion of persons with work related disabilities and compares that rank to the state's rank in the proportion of students in Special Education.

Reports and Studies Have Cited Problems with the Child Counts

A number of authoritative studies have concluded that the Special Education child count process is unreliable.

SRI Study Stated that Estimates Of Disabled Population Were Not Reliable

The U.S. Bureau of Education for the Handicapped contracted with Stanford Research Institute (SRI), a private research firm, to evaluate SEA counts. In 1977, SRI issued a report titled "Validation of State Counts of Handicapped Children." Despite the fact that the report was issued 16 years ago, ED representatives advised us that it is still the most recent comprehensive study in this area.

The report presented a number of caveats regarding the counts of students in Special Education. For example, the report stated:

> "Much controversy among professionals still surrounds the definitions of handicapping conditions, criteria for evaluation, and assessment of need for special education . . . .
>
> "To the extent that professionals cannot agree on definitions, diagnostic procedures, and the need for services, the population of children with handicapping disabilities who are in need of special education is not well defined. To the extent that the population is not well defined, its size is indeterminant."

National Council on Disability Issued Reports Citing Problems with the Classification Process

The National Council on Disability, an independent Federal agency, issued two reports that cited problems with the classification process.

- In September 1989, it issued "The Education of Students with Disabilities: Where Do We Stand?" That paper cited research indicating that most procedures for classifying children into disability categories are unreliable, invalid, time consuming and costly. It also stated that the classifications often result in labeling and stereotyping the students.

- In March 1993, it issued "Serving the Nation's Students with Disabilities: Progress and Prospects." That report stated that "overreferrals" to Special Education are a direct result of imprecise eligibility definitions, nonexistent or ineffective evaluations, and untrained or undertrained school personnel.

  It pointed out that an analysis of ED data for the period 1986-89, disclosed numerous unexplained differences in counts and hundreds of unexpected differences in placements. For example, for the 1988-89 school year, the

number of students with speech impairments in one state decreased by 22,952, while the number of students with visual impairments increased by 22,696. Nationwide, such anomalies involved 410,767 students with disabilities.

SMB Economic Research, Inc. Found Inconsistencies Among States

In 1991, in accordance with a Congressional mandate, SMB Economic Research, Inc. issued "The Distribution of Federal Elementary-Secondary Education Grants Among the States." The SMB report concluded that the current method of fund allocation has the advantage that it links aid amounts more directly to actual service levels and costs. However, it pointed out a major deficiency in the present system. In discussing alternatives for funding Special Education by type of disability, it stated:

> ". . . methods of classifying children by handicapping condition appear to be highly inconsistent among states and easily manipulable in response to fiscal incentives."
>
> "Evidence of inconsistency in state classification schemes abounds . . . . Is it plausible, for instance . . . , that the proportion of handicapped children who are mentally retarded varies from 11 percent in Florida and 16 percent in Mississippi to 32 percent in Alabama, or that this proportion is 8 percent in New York, 17 percent in Pennsylvania, but only three percent in New Jersey? A much more likely explanation is that these states have established very different criteria for identifying mentally retarded children . . . . Disparities of such magnitude leave little doubt that states are not interpreting or applying the federal taxonomy uniformly."

The National Association of State Boards of Education Cited Variances in the Categories

In October 1992, the National Association of State Boards of Education issued a report entitled "Winners All: A Call for Inclusive Schools." That report provides illustrations of the variances in the disability categories among the states. It also disclosed that the number of children classified as learning disabled, the least defined category of Special Education, has grown steadily in recent years. The report concluded:

> "Researchers at the University of Minnesota have established that 80% of the total population of the nation would be classified as learning disabled in one or another of the systems now used to classify students."

The same researchers also pointed out that the labeling and special placement of students often "trigger" the flow of extra dollars to school systems. These funding practices have contributed to the segregation of students into isolated programs and have served as an incentive for over-identification of disabled students. In effect, LEAs are punished for trying to educate students without labeling them as disabled, because they then lose Special Education funding.

The report concluded that designating students as being disabled has detrimental effects. For example, the students may be labeled throughout their education. Further, as a result of labeling, the funding mechanisms may encourage districts to place students in highly restrictive educational environments in order to obtain the maximum funding.

ED-OIG Audits Have Reported Inaccurate Child Counts

ED-OIG audits have disclosed inaccurate child counts and inadequate monitoring of those counts. For example, in June 1992, ED-OIG issued a report on the accuracy of the disability child counts for Pennsylvania. That report found that about 5.5 percent of the sampled children did not meet the program requirements. Further, the data for an additional 10.9 percent of the sampled children was so unreliable that no conclusion could be drawn about

them. That report also disclosed significant weaknesses in the internal controls relating to the monitoring of the accuracy of the child counts.

Another ED-OIG report, issued in May of 1989, covered the Special Education program in the State of Minnesota. That report disclosed that about 11 percent of the children included in the state's child count for Special Education did not qualify under Federal regulations. Neither the audit of Pennsylvania nor the audit of Minnesota attempted to identify whether there were students eligible for Special Education who had not been counted.

State and Local Officials Cited Problems with the Present System

We talked with Special Education officials from six state agencies and three local school districts. They provided us with their insights on the use of disability categories. Following are some of the more frequent remarks made by the Special Education officials during our interviews:

- Some assessment personnel and other interested parties may have a bias to classify students having difficulty in school as disabled because those students will then receive special attention (e.g. smaller classrooms).

- States generally do not use the Special Education disability categories for purposes other than Federal reporting. In a letter to us, one state official asserted:

  > "Allocating dollars to states on the basis of an annual child count . . . acts as a bounty system, rather than support for good practice. We believe that students with disabilities would be better served by an allocation method that is based on more stable data, such as census, birth rates, or total student enrollment."

- The category definitions are ambiguous and leave room for broad individual interpretations that can create conflicts and artificial barriers between school personnel and special interest groups. These conflicts can lead to lengthy appeal processes and even litigation.

- Many of the officials expressed concern that the categories can stigmatize a child. Parents and advocacy groups are against having children being labeled. The officials would not object to eliminating the Federal requirements for classifying children in Special Education.

- The officials were apprehensive about new categories of disability, such as Traumatic Brain Injury, since it is difficult to hire qualified personnel for such specific categories. A number of the persons we spoke with were concerned that the categories will become too numerous.

Discussion with one state representative made it clear that the categories were not considered important by that state. The state does not generally identify the category of disability for each child. Instead it uses a formula to allocate the proportion of students in each category.

The state surveyed its school districts during fiscal year 1981-82 to derive data for the formula. It surveyed them again in fiscal year 1991-92. During the intervening nine years, it used the formula to estimate the number of children in each category. The state representative advised us that if a district official was unsure of the category in which to place a student, he used his "best guess." The representative asserted that the state did not use the disability categories for any purpose except for reports to the Federal government and, occasionally, applications for discretionary grants.

Representatives of Independent Groups Perceive Deficiencies in the Special Education Program

We spoke with officials from ten independent organizations that are concerned about the education of children with disabilities. We were interested in understanding the different perspectives such groups have regarding the implementation of the Special Education program. The ten organizations were:

Learning Disabilities Association
Council for Exceptional Children
National Parent Teachers Association
The Arc
Association for Persons with Severe Disabilities
National Parent Network on Disabled

Federation of Families for Children's Mental Health
Association of Education and Rehabilitation of the Blind and Visually Impaired
National Association of School Psychologists
National Association of State Directors of Special Education.

Independent Groups Know that States Vary in Their Counts

All of the representatives stated that they were aware that the states differed significantly in the proportion of children they counted in the various disability categories. Most groups were open to an alternative funding mechanism that would distribute Federal funds more efficiently and equitably, and could result in more funds going directly to serve the students. Groups were interested in the possibility of allocating Federal funds on a census basis, as it would reduce the present administrative burden.

They expressed the opinion that if the Federal government instituted such an allocation system, states might follow the Federal lead. In fact, at least two states have recently implemented funding mechanisms based on total student enrollment rather than a child count. Some of the groups would like to see any alternative funding mechanism introduced in a graduated time frame or on a trial basis to avoid any undue hardships at the state and local levels.

Independent Groups Wanted to Eliminate Categorization Process

Most of the groups we spoke with believed that categorization should be eliminated from Special Education. According to the representatives, the disability categories are instructionally irrelevant and are used only for Federal reporting purposes. They are concerned with the stigma that results from labeling as well as mislabeling.

They also expressed concern about the disproportionate number of minorities and poor children who are identified as disabled. On the other hand, representatives of two groups stated that the current system of counts and categorization provided some level of protection for the disabled, by ensuring their visibility or preventing a group from being overlooked due to its small size.

As a result of the reporting requirement, most states currently categorize disabled students in conjunction with the process of counting students for funding purposes. Our analysis, along with other studies, has shown that there are significant variances between states in the proportions of students reported in the various categories. Further, special education officials and independent groups stated that the labeling process stigmatizes the disabled students. Under our recommendation, counts will no longer be required for funding purposes. This provides ED with the opportunity to reevaluate the reporting of students by disability category.

Recommendations and Program Office Response

We recommend that ED:

1) Request the Congress to revise the allocation procedure for Special Education funds in order to grant each state funds based on objective data. We suggest that the Department consider allocating funds based on a formula which includes two factors: population and poverty. The first factor in the allocation formula could be the population of persons age 3 through 21. (Note: This is the age group covered by law.) The second factor to be considered would be a measure of poverty, which has been shown to have a strong correlation with the level of disabilities.

2) Evaluate the need to classify and report students into the various disability categories.

The Office of Special Education and Rehabilitative Services responded that the report's analysis and recommendations warranted further study. It stated that it would consider issues raised in the report as part of its deliberations during the reauthorization process. The response, dated September 9, 1994, is included as an Appendix to this report.

Background

In 1965, the Congress established the disability program under Chapter I of the Elementary and Secondary Education Act. The primary purpose of the program was to help states finance the education of disabled children in state-operated or supported institutions. Most of the children intended to be served were severely disabled.

Ten years later, the Congress enacted a much larger program through the passage of the Education of the Handicapped Act, as amended by P.L. 94-142, now known as the Individuals with Disabilities Education Act (IDEA). IDEA is made up of various components, but the three main nondiscretionary grant programs include Part H, Program for Infants and Toddlers (covering children from birth through age 2); Part B, Section 619, Preschool Grants (covering children from age 3 through age 5); and Part B, Section 611, Grants to States (covering persons from age 3 through age 21).

IDEA authorizes Federal financial assistance to states to help ensure that all children with disabilities have available to them a free appropriate public education, including Special Education and related services to meet their unique needs. Children with disabilities are defined as those who have been evaluated and determined to be eligible under one of the thirteen disability categories as set forth in the regulations.

Although states must serve all disabled students, Federal regulations place a cap on the number of disabled students counted for Special Education funds in each state. The count of disabled children aged 3 through 17 cannot exceed 12 percent of the number of all children aged 3 through 17.

For fiscal year 1991, approximately $1.85 billion in Special Education funds were distributed to the 50 States, the District of Columbia and Insular Areas based on a reported count of 4.6 million children with disabilities that were receiving Special Education services on December 1, 1990.

Standards and Approach

The purpose of our audit report was to determine if the process of allocating Federal funds to states under the Individuals with Disabilities Education Act, Part B, Section 611 was reasonable and equitable. We talked with Special Education officials in the Department. We also spoke with Special Education officials from six state education agencies and three local school districts to gain insight on how the Special Education program was working in their areas. In addition, we spoke with representatives of ten national organizations that have an interest in Special Education. In all, we spoke with 52 Federal, state, local and independent representatives. See Exhibit C for a listing of the groups with whom we talked.

In performing our analysis, we reviewed data from Federal and state sources. We also reviewed audit reports issued by the ED Office of Inspector General and reports prepared by a number of organizations outside of ED. We conducted our audit in accordance with government auditing standards appropriate to the scope of the audit.

EXHIBIT A

STUDENTS WITH DISABILITIES IN EACH STATE RANKED BY PERCENTAGE FOR THE SCHOOL YEAR 1990-91

STATE	Number of Residents Age 3-17 (Thousands)	Number With Disabilities Age 3-17 (Thousands)	Percentage With Disabilities
MASSACHUSETTS	1,104	130	11.7%
NEW JERSEY	1,476	168	11.4%
RHODE ISLAND	185	19	10.2%
WEST VIRGINIA	381	39	10.2%
MAINE	259	26	10.0%
ALABAMA	891	88	9.9%
TENNESSEE	1,017	99	9.7%
SOUTH CAROLINA	766	74	9.7%
FLORIDA	2,357	220	9.3%
CONNECTICUT	611	57	9.3%
IOWA	605	56	9.3%
NEW MEXICO	373	34	9.1%
KENTUCKY	805	73	9.1%
MISSISSIPPI	631	57	9.0%
OKLAHOMA	704	62	8.8%
NORTH CAROLINA	1,329	117	8.8%
MARYLAND	946	83	8.8%
MISSOURI	1,096	95	8.7%
NEBRASKA	358	31	8.7%
WYOMING	116	10	8.6%
VIRGINIA	1,237	106	8.6%
MONTANA	188	16	8.5%
SOUTH DAKOTA	166	14	8.4%
VERMONT	119	10	8.4%
UTAH	526	44	8.4%
INDIANA	1,218	101	8.3%
DELAWARE	134	11	8.2%
ILLINOIS	2,436	196	8.0%
ARKANSAS	523	42	8.0%
OHIO	2,332	187	8.0%
PENNSYLVANIA	2,320	186	8.0%
TEXAS	4,010	318	7.9%
ALASKA	139	11	7.9%
MINNESOTA	967	76	7.9%
NEW YORK	3,502	272	7.8%
IDAHO	261	20	7.7%
NORTH DAKOTA	147	11	7.5%
NEW HAMPSHIRE	228	17	7.5%
KANSAS	550	41	7.5%
OREGON	605	45	7.4%
MICHIGAN	2,037	151	7.4%
WASHINGTON	1,044	77	7.4%
WISCONSIN	1,077	79	7.3%
CALIFORNIA	6,298	448	7.1%
NEVADA	241	17	7.1%
COLORADO	712	50	7.0%
GEORGIA	1,429	95	6.6%
ARIZONA	806	53	6.6%
LOUISIANA	1,031	66	6.4%
HAWAII	230	12	5.2%
DISTRICT OF COLUMBIA	94	2	2.1%

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EXHIBIT B

COMPARISON OF STATE RANKS: WORK-RELATED DISABILITIES PER 1,000 VS. PERCENTAGE OF STUDENTS COUNTED AS DISABLED

STATE	Rank Based on Work-Related Disabilities	Rank Based on Number of Disabled Students	Is the Difference Between the Rankings Greater Than 15?
WEST VIRGINIA	1	21	Yes
KENTUCKY	2	13	
ARKANSAS	3	12	
MISSISSIPPI	4	14	
LOUISIANA	5	49	Yes
OKLAHOMA	6	15	
MAINE	7	5	
OREGON	8	40	Yes
TENNESSEE	9	7	
MONTANA	10	22	
ALABAMA	11	6	
SOUTH CAROLINA	12	8	
WASHINGTON	13	42	Yes
MICHIGAN	14	41	Yes
IDAHO	15	36	Yes
OHIO	16	30	
GEORGIA	17	47	Yes
NEW MEXICO	18	12	
NORTH CAROLINA	19	16	
FLORIDA	20	9	
RHODE ISLAND	21	3	Yes
MISSOURI	22	18	
DISTRICT OF COLUMBIA	23	51	Yes
NEVADA	24	45	Yes
ARIZONA	25	48	Yes
PENNSYLVANIA	26	31	
INDIANA	27	26	
VERMONT	28	24	
COLORADO	29	46	Yes
SOUTH DAKOTA	30	23	
DELAWARE	31	27	
TEXAS	32	32	
IOWA	33	11	Yes
VIRGINIA	34	21	
NEW YORK	35	35	
CALIFORNIA	36	44	
MINNESOTA	37	34	
WISCONSIN	38	43	
UTAH	39	25	
WYOMING	40	20	Yes
NEW HAMPSHIRE	41	38	
MASSACHUSETTS	42	1	Yes
KANSAS	43	39	
NEBRASKA	44	19	Yes
MARYLAND	45	17	Yes
NORTH DAKOTA	46	37	
ILLINOIS	47	28	Yes
ALASKA	48	33	
HAWAII	49	50	
CONNECTICUT	50	10	Yes
NEW JERSEY	51	2	Yes

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GROUPS CONTACTED IN CONNECTION WITH THE IDEA-B PROGRAM

Federal

U.S. Department of Education - Office of Special Education Programs

State Education Agencies (SEAs)

California State Department of Education - Special Education Division

Commonwealth of Massachusetts Department of Education - Division of Special Education

District of Columbia Public Schools - State Office of Special Education

New Jersey State Department of Education - Special Education Division

New York State Department of Education - Office for Education of Children with Handicapping Conditions

Pennsylvania Department of Education - Bureau of Special Education

Local Educational Agencies (LEAs)

District of Columbia Public Schools - LEA Office of Special Education

New York City Public Schools - Office of Special Education

San Francisco Unified School District - Department of Special Education

Independent Agencies

Learning Disabilities Association

Council for Exceptional Children

National Parent Teachers Association

The Arc

Association for Persons with Severe Disabilities

National Parent Network on Disabled

Federation of Families for Children's Mental Health

Association of Education and Rehabilitation of the Blind and Visually Impaired

National Association of School Psychologists

National Association of State Directors of Special Education

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

SEP _ 9 1994

THE ASSISTANT SECRETARY

MEMORANDUM

TO : Sefton Boyars
Regional Inspector General for Audit, Region IX

FROM : Judith E. Heumann

SUBJECT: Draft Audit Report, Audit Control No. A0928255, "ED Can Allocate Special Education Funds More Equitably"

The purpose of this memorandum is to comment on the recommendations included in the Draft Audit Report, Audit Control No. A0928255, "ED Can Allocate Special Education Funds More Equitably."

As we have expressed in earlier meetings, we have some concerns regarding the analysis and recommendations relating to the use of data. However, we believe the overall issues raised in the report warrant further study as the Department considers options for the upcoming reauthorization of IDEA. We focus below on the recommendations contained in the report. If you have any other questions concerning our response to the report I would welcome further discussions.

1. **The Department should "request the Congress to revise the allocation procedure for Special Education funds in order to grant each State funds based on objective data."**

We are in the process of considering issues important to the development of the Department's proposals to the Congress for the reauthorization of the Individuals with Disabilities Education Act (IDEA). In developing those proposals, we have conducted extensive outreach activities. A number of commenters have suggested that the Department reexamine the manner in which the Department allocates funds to States under the basic State grant program under Part B of IDEA. We have not yet reached a final determination as to what -- if any -- changes to the current Part B allocation provisions should be proposed. We do, however, concur that the allocation formula has very significant policy implications, and can have a pronounced effect on the manner in which States serve students with disabilities.

We further concur that any allocation formula must be based upon objective data. However, the extent to which current data provide the needed objectivity, as questioned in the report, is something which we believe merits a more in-depth analysis. When the Congress enacted Public Law 94-142 in 1975, the Congress

created an allocation formula that required States to begin serving children with disabilities before they could include those children in their Part B child count. This formula addressed the concerns, noted by the Congress in the purpose section of the Act, that a high percentage of children with disabilities were receiving no educational services, and rewarded States for beginning to educate unserved students. While the current allocation procedures serve that purpose effectively and accurately, a number of groups and individuals have raised the issue of whether they result in fairly low allocations to States with high concentrations of poverty that have a relatively low capacity to generate revenue to initially serve children with disabilities. It has been suggested by some commenters that consideration be given to a census-based formula, with some consideration also given to poverty, as one way in which to better address the needs of children in relatively poor States. We believe the objectivity and validity of using Census or other data need to be considered in the re-authorization process.

2. The Department should "evaluate the need to classify and report students into the various disability categories."

We concur with this recommendation, and the Department will, as part of the reauthorization process, consider the feasibility of assessing the need to classify and report students into the various disability categories.

Under current Part B procedures, the disability categories in which students are reported have no impact on Part B funding, so long as all students included in a State's child count meet the Part B definition of children with disabilities. Further, Part B requires that public agencies provide special education and related services to students with disabilities pursuant to an individualized education program; thus, a student's program and placement must be based upon the student's unique needs, rather than the specific disability label assigned to the student. Current Part B procedures require that States report child count data by disability categories; the purpose of this requirement is to ensure the availability of data to enable the Department, the Congress, and others to determine the extent to which IDEA has been implemented to identify, evaluate, and serve children with disabilities in each of the separate categories.

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While Part B does not permit public agencies to base the specific services provided to a student on the student's disability label, many individuals and groups have noted that -- in practice -- the current emphasis in some public agencies on categorizing students results in categorical program and placement decision-making. The Department is, therefore, considering the usefulness and misuse of categorical information, in determining whether to address the reporting of child count by disability categories in its IDEA reauthorization proposals to the Congress.

cc: Richard Rasa